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PAGE 01 STATE 125763
ORIGIN INR-10

INFO OCT-01 AF-10 EUR-12 NEA-11 IO-13 ISO-00 SSM-03
OC-06 CCO-00 /066 R

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APPROVED BY INR/RNA:PJGRIFFIN
SSM:CWKONTOS
DESIRED DISTRIBUTION
SSM

-----006304 172325Z /40

P 172020Z MAY 78
FM SECSTATE WASHDC
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PAGE 02 STATE 125763

TREASURY DEPARTMENT WASHDC PRIORITY 0000

S E C R E T STATE 125763

E.O. 11652: XGDS-2

TAGS: EG, IS, PINR

SUBJECT: INTSUM 566 - MAY 17, 1978

LONDON FOR KINSOLVING
PARIS FOR NICHOLAS MURPHY
OTHER ADDRESSEES FOR CHIEFS OF MISSION

1. INITIAL ISRAELI REACTIONS TO SENATE ACTION ON THE AIRCRAFT DEAL HAVE BEEN PREDICTABLY NEGATIVE. THE PRESS, WHICH HAS BEEN UNIFORMLY CRITICAL OF THE SAUDI AND EGYPTIAN SALES, IS EXPRESSING GRAVE CONCERN:

(A) HAARETZ COMMENTATOR YOEL MARCUS DESCRIBED THE SENATE VOTE AS A "VICTORY FOR THE ADMINISTRATION" WHICH HAS "DEALT THE ISRAELI LOBBY A BLOW."

(B) THE MASS CIRCULATION MAARIV, GENERALLY SUPPORTIVE OF THE BEGIN GOVERNMENT, CHARGED THAT ISRAEL'S DEFEAT WAS THE RESULT OF "BAD TACTICAL MOVES INDECISIVENESS, AND LACK OF RESOLVE." THE SENATE VOTE, IT SAID, WAS "A VERY DANGEROUS PRECEDENT." THE PAPER ASSERTED THAT "THE US COMMITMENT TO ISRAEL'S SECURITY HAS RECEIVED A NEW AND VERY WORRISOME INTERPRETATION."

2. OPPOSITION LEADERS HAVE BEEN SHARPLY CRITICAL OF BEGIN AND HIS COLLEAGUES FOR THEIR ALLEGED TIMIDITY AND
SECRET

PAGE 03 STATE 125763

INDECISIVENESS. LABOR PARTY CHAIRMAN PERES TOOK BEGIN TO TASK FOR FAILING TO RAISE THE ISSUE WITH THE PRESIDENT ON HIS LAST TRIP TO THE US AND SAID THAT THE SENATE VOTE CONSTITUTED A "SAD DAY IN US-ISRAELI RELATIONS." THE PARTY HAS CALLED FOR A KNESSET DEBATE ON THE ISSUE; ALIGNMENT MEMBERS OF THE KNESSET FOREIGN AFFAIRS AND SECURITY COMMITTEE BLASTED THE GOVERNMENT YESTERDAY FOR ITS "STUTTERING" AND "INDECISIVENESS," ACCORDING TO JERUSALEM RADIO.

3. GOVERNMENT LEADERS ARE SEEKING TO DOWNPLAY THE SIGNIFICANCE OF A DEFEAT MOST ISRAELIS REGARD AS MASSIVE. BEGIN EXPRESSED THE GOVERNMENT'S "DEEP SORROW," BUT SAID THAT AN OFFICIAL RESPONSE WOULD BE ANNOUNCED AFTER THE CABINET DISCUSSES THE SITUATION AT NEXT SUNDAY'S SESSION. DAYAN STATED THAT HE DID NOT BELIEVE THE DEAL WOULD HARM US-ISRAELI RELATIONS, JERUSALEM RADIO SAID.

4. NEVERTHELESS, ISRAELIS ACROSS THE POLITICAL SPECTRUM FOR WEEKS HAVE INDICATED THEIR DEEP CONCERN ABOUT THE COURSE OF US-ISRAELI RELATIONS. THEY HAVE REGARDED THE VOTE OVER THE PLANE DEAL AS A LITMUS TEST OF ISRAEL'S POLITICAL STRENGTH IN THE US AND WILL NOW EXPECT A TOUGH LINE FROM THE GOVERNMENT.

5. THE SENATE VOTE WILL FUEL DEEP-SEATED FEARS IN ISRAEL ABOUT THE VALIDITY OF THE US COMMITMENT TO ISRAELI

SECURITY. THE CHARGE THAT THE ARMS PACKAGE VIOLATES US COMMITMENTS IN THE SINAI II CONTEXT IS MORE THAN A PRESSURE TACTIC; MOST ISRAELIS PERCEIVE THIS TO BE THE CASE.

6. THE IMPACT OF THE VOTE OVER THE SHORT TERM ON US-ISRAELI RELATIONS IS UNCLEAR AT THIS POINT. DISCONTENT AMONG COALITION DOVES WITH BEGIN'S FOREIGN POLICY AND TACTICS IS LIKELY TO GROW. THE PRESTIGE OF THE LIKUD
SECRET

PAGE 04 STATE 125763

GOVERNMENT HAS SUFFERED A SERIOUS BLOW. WHETHER THESE DEVELOPMENTS WILL AFFECT THE POLICY OF THE GOVERNMENT OR THE MAKEUP OF THE COALITION IS PROBLEMATIC, HOWEVER, GIVEN BEGIN'S INFLEXIBILITY AND THE STRUCTURE OF ISRAELI POLITICS WHICH FAVORS THE STATUS QUO.

7. THE EGYPTIANS AND SAUDIS WERE GRATIFIED BY THE SENATE'S DECISION. SADAT, IN A MEASURED STATEMENT RELEASED TO THE PRESS YESTERDAY, STRESSED THE POSITIVE ASPECTS OF THE SALE. THE STATEMENT DESCRIBED THE DECISION

"AS A NEW AND POSITIVE STEP IN THE COURSE OF EGYPTIAN-US RELATIONS" THAT CONFIRMS ARAB CONFIDENCE IN THE "VITAL" ROLE OF THE US IN THE MIDDLE EAST AS A WHOLE AND IN THE PEACE PROCESS IN PARTICULAR. HIS STATEMENT DID NOT GLOAT OVER THE SENATE'S VOTE AS A DEFEAT FOR ISRAEL, ALTHOUGH IT REFERRED AT ONE POINT TO THE ARABS' HAVING OVERCOME THE "IMPEDIMENT" CAUSED BY THE SPECIAL US-ISRAEL RELATIONSHIP TO THE US ABILITY TO MEET LEGITIMATE ARAB DEFENSE NEEDS.

8. THE SENATE DECISION WILL BURNISH SADAT'S IMAGE AT HOME AND SERVE AS AMMUNITION FOR HIS CURRENT CAMPAIGN AGAINST CRITICS AT BOTH ENDS OF THE POLITICAL SPECTRUM. PLAYING TO HIS DOMESTIC AUDIENCE, SADAT'S STATEMENT DEPICTED THE VOTE AS A VINDICATION OF HIS INITIATIVE AND HIS MODERATE COURSE. IT ARGUED THAT "THE DEAL...WOULD NOT HAVE COME THROUGH" HAD IT NOT BEEN FOR THE FAVORABLE IMPACT OF HIS INITIATIVE ON US AND WORLD OPINION.

9. THE INITIAL SAUDI REACTION--A COMMENTARY ON RIYADH RADIO YESTERDAY--WAS LESS CIRCUMSPECT. UNDOUBTEDLY AWARE OF ARAB PRESS STORIES WHICH SUGGESTED THAT THE
SECRET

PAGE 05 STATE 125763

SAUDIS HAD BEEN HUMILIATED BY THE CONDITIONS ATTACHED TO THE F-15 SALE, THE BROADCAST ASSERTED THAT THE SENATE APPROVAL WAS A CLEAR INDICATION THAT "THE JEWISH LOBBY IN THE US IS WEAKENING" AND THAT ISRAEL IS LOSING ITS

INFLUENCE ON THE US. IT WENT ON TO SAY THAT THE VOTE "HERALDS A NEW ERA" IN US-ISRAEL RELATIONS IN WHICH US POLICY WILL BE DICTATED BY US INTERESTS AND NOT BY ISRAEL. PRINCE SAUD, IN A SUBSEQUENT TELEVISION INTERVIEW IN LOS ANGELES, PRAISED THE SENATE'S ACTION AND STRESSED THAT IT WOULD ENHANCE THE MUTUAL CONFIDENCE BETWEEN SAUDI ARABIA AND THE US. (SECRET)

10. SOVIET REACTION TO THE SENATE'S APPROVAL OF THE WARPLANE PACKAGE REITERATED MOSCOW'S PREVIOUS THEMES ON THE SUBJECT. MOSCOW RADIO ASSERTED IN A COMMENTARY BROADCAST YESTERDAY THAT THE DEAL "CONSOLIDATES ISRAEL'S MILITARY SUPERIORITY" AND AT THE SAME TIMETIES EGYPT AND SAUDI ARABIA MORE CLOSELY TO US POLICY. THE DEAL ALSO "OBSTRUCTS" EFFORTS TOWARD A COMPREHENSIVE MIDEAST PEACE AND "OPENS A NEW PAGE IN THE (MIDEAST) ARMS RACE", THE BROADCAST CHARGED. (UNCLASSIFIED)

11. ISRAEL. THE CONVENTION OF THE ISRAELI NATIONAL RELIGIOUS PARTY OPENED ON MAY 14 AND IS EXPECTED TO BE THE SCENE OF A RENEWED STRUGGLE AMONG ITS FACTIONS, ACCORDING TO EMBASSY TEL AVIV. THE MAIN ISSUES BEFORE THE

CONVENTION ARE THE YOUTH FACTION'S BID TO TAKE OVER THE POSITION OF SECRETARY GENERAL, A CAMPAIGN BY PARTY DOVES TO MODERATE THE NRP'S HAWKISH PLATFORM, AND A PROPOSAL TO DISMANTLE THE NRP LABOR UNION AND TO HAVE ITS MEMBERS INTEGRATED INTO THE HISTADRUT. OUR EMBASSY COMMENTS THAT, ASIDE FROM THE HISTADRUT MERGER POSSIBILITY, NO MAJOR CHANGES ARE EXPECTED FROM THE CONVENTION. (LIMITED OFFICIAL USE)

SECRET

PAGE 06 STATE 125763

12. ACCORDING TO EMBASSY TEL AVIV, MAARIV CLAIMS THAT THE FACT THAT SADAT (IN HIS INTERVIEW WITH THE CHICAGO TRIBUNE) MADE PUBLIC HIS READINESS TO MAKE A SEPARATE PEACE WITH ISRAEL IS A MATTER OF "GREAT SIGNIFICANCE." SADAT, ACCORDING TO THE PAPER, HAS "CLEARED THE AIR AND DEFINED AN ATTAINABLE GOAL--WHICH IN ITSELF IS NO SMALL PROGRESS." (CONFIDENTIAL)

13. A PORI POLL RELEASED YESTERDAY SHOWS THAT, ON THE FIRST ANNIVERSARY OF THE LIKUD'S ELECTION VICTORY, 50 OF ISRAELIS ARE "SATISFIED" WITH ITS PERFORMANCE. 21 ARE "MORE OR LESS SATISFIED" AND 21 ARE NOT SATISFIED. THE POLL ALSO REVEALED THAT 84 FEEL RETENTION OF CONTROL OVER THE WEST BANK IS VITAL TO ISRAEL'S SECURITY. (UNCLASSIFIED)

14. IN THE WAKE OF GENERAL EYTAN'S STATEMENT LAST WEEK, WEIZMAN HAS ISSUED DIRECTIVES TO PREVENT SIMILAR COMMENTS

ON CONTROVERSIAL ISSUES, ACCORDING TO AL HAMISHMAR. WEIZMAN, HOWEVER, SAID HE HAD NO INTENTION OF REBUKING EYTAN. (UNCLASSIFIED)

15. EGYPT. IN CONVERSATIONS WITH EMBASSY CAIRO, ECONOMIC MINISTER EL-SAYEH EXPRESSED OPTIMISM THAT EGYPT AND THE IMF WILL SOON REACH AN ACCORD ON THE PROPOSED EXTENDED FUND FACILITY. AFTER THE CONCLUSION OF THE IMF AGREEMENT, EGYPT PLANS IMMEDIATELY TO SEND A MINISTERIAL DELEGATION TO EGYPT'S ARAB AID SOURCES TO DISCUSS ITS 1978 BALANCE OF PAYMENTS GAP AND NECESSARY FUNDING TO MEET IT. EL-SAYEH ALSO CLAIMED THAT THE WORLD BANK IS NOW SUFFICIENTLY REASSURED THAT IT WILL GO FORWARD WITH THE CONSULTATIVE GROUP MEETING IN MID-JUNE, AS SCHEDULED. (CONFIDENTIAL)

SECRET

PAGE 07 STATE 125763

16. LEBANON. EMBASSY BEIRUT REPORTS A CERTAIN AIR OF RELIEF IN BEIRUT THAT THE CABINET CRISIS HAS COME TO AN END. A NUMBER OF POLITICAL LEADERS, INCLUDING CAMILLE SHAMOUN, PIERRE GEMAYEL, AND KAMAL ASSAD, EXPRESSED APPROVAL OF SARKIS' DECISION TO REINSTATE THE EXISTING

EIGHT-MEMBER HOSS GOVERNMENT. THE LEFT IS HIGHLY CRITICAL, HOWEVER, AND A NUMBER OF MP'S ARE DISTINCTLY UNENTHUSIASTIC. OUR EMBASSY COMMENTS THAT THE BIG WINNER IN THE CABINET EPISODE APPEARS TO BE SHAMOUN, WHILE THE BIG LOSER IS SARKIS. (LIMITED OFFICIAL USE)

17. PALESTINE CENTRAL COUNCIL (PCC). IN COMMENTS TO THE DAMASCUS DAILY AL-THAWRA, PNC CHAIRMAN FAHUM SUMMARIZED THE FOUR MAIN TOPICS TO BE DISCUSSED AT THE SCHEDULED MAY 20 PCC MEETING:

(A) DETERMINING THE DATE AND VENUE FOR A PALESTINE NATIONAL COUNCIL MEETING, WHICH IS OVERDUE;

(B) STUDYING THE SITUATION IN LEBANON;

(C) WORKING FOR PALESTINIAN UNITY IN ORDER TO CONFRONT THE "ZIONIST AGGRESSION"; AND

(D) CURRENT INTER-ARAB RELATIONS AND THE EFFORTS TO CONVENE A SUMMIT CONFERENCE.

GIVEN RECENT CRITICISM OF ARAFAT, THE PCC MEETING SHOULD BE TUMULTUOUS. (LIMITED OFFICIAL USE)

18. WEST BANK OPINION. THE EDITORS OF THE WEST BANK DAILY AL QUDS HAVE PLANNED A CONCERTED CAMPAIGN TO PROVOKE A PUBLIC DEBATE AMONG PALESTINIANS IN THE OCCUPIED AREAS CONCERNING THEIR POLITICAL PRIORITIES AND RELATIONS WITH

SECRET

PAGE 08 STATE 125763

THE PLO, OUR JERUSALEM CONSULATE GENERAL REPORTED. PALESTINIAN UNITY AND THE PLO'S ROLE AS LEGITIMATE REPRESENTATIVE WILL BE REAFFIRMED, BUT A LARGER ROLE WILL BE CLAIMED FOR WEST BANKERS AND GAZANS. IT WILL BE ARGUED THAT THE RESIDENTS OF THE OCCUPIED AREAS FORM THE LARGEST PALESTINIAN COMMUNITY, HAVE A SPECIAL STATUS IN THAT THEY HAVE LIVED UNDER OCCUPATION, AND HAVE EXPERIENCE IN DEALING DIRECTLY WITH ISRAELIS. THE CONSULATE GENERAL COMMENTED THAT THIS CAMPAIGN DOES NOT REFLECT OPTIMISM WITH THE PEACE PROCESS SO MUCH AS FEAR THAT BEGIN WILL IMPOSE HIS SELF-RULE PLAN, WHICH MUST BE RESISTED. (SECRET) VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 sep 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLITICAL SUMMARIES, INTELLIGENCE ASSESSMENTS, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 17 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE125763
Document Source: ADS
Document Unique ID: 00
Drafter: INR/RNA/NE:MGBANNERMAN:JVW
Enclosure: n/a
Executive Order: 11652 XGDS-2
Errors: n/a
Expiration:
Film Number: D780208-0768
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197805112/baaaeyrf.tel
Line Count: 290
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: e2793895-c288-dd11-92da-001cc4696bcc
Office: ORIGIN INR
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 31 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2540157
Secure: OPEN
Status: NATIVE
Subject: INTSUM 566 - MAY 17, 1978
TAGS: PINR, EG, IS, XF
To: SINAI INFO ABU DHABI MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e2793895-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014